INCOME YEAR

1998 Corporation Depreciation and Amortization

CALIFORNIA FORM **3885**

Attach to Form 100.

Corporation name | California corporation number

Part I Depreciation

(a) Description of property	(b) Date acquired	(c) Cost or other basis	(d) Depreciation allowed or allowable in earlier years	(e) Method of figuring depreciation	(f) Life or rate	(g) Depreciation for this year	(h) Additional first year depreciation
1							

2 Add the amounts in columns (g) and (h). The combined total of column (h) may not exceed $2,000. See instructions for line 1, column (h) **2**

3 Total. Add the amounts on line 2, columns (g) and (h) **3**

4 Total depreciation claimed for federal purposes **4**

5 Depreciation adjustment. If line 4 is greater than line 3, enter the difference here and on Form 100, Side 1, line 6. If line 4 is less than line 3, enter the difference here and on Form 100, Side 1, line 15. (If California depreciation amounts are used on Form 100, no adjustment is necessary) **5**

Part II Amortization

(a) Description of property	(b) Date acquired	(c) Cost or other basis	(d) Amortization allowed or allowable in earlier years	(e) R&TC section	(f) Period or percentage	(g) Amortization for this year
1						

2 Total. Add the amounts in column (g) **2**

3 Total amortization claimed for federal purposes **3**

4 Amortization adjustment. If line 3 is greater than line 2, enter the difference here and on Form 100, Side 1, line 6. If line 3 is less than line 2, enter the difference here and on Form 100, Side 1, line 15 . . . . . **4**

General Information

In general, California tax law conforms to the Internal Revenue Code (IRC) as of January 1, 1998. However, there are continuing differences between California and federal tax law. California has not conformed to the changes made to the IRC by the federal Internal Revenue Service (IRS) Restructuring and Reform Act of 1998 (Public Law 105-206) or the Tax and Trade Relief Extension Act of 1998 (Public Law 105-277).

California law conforms to federal law regarding the temporary suspension of income limitations on percentage depletion for production from marginal wells. The percentage depletion deduction, which may not exceed 65% of the taxpayer's taxable income, is no longer restricted from exceeding 100% of the net income derived from the oil or gas well property.

A Purpose

Use this form to figure California depreciation and amortization for corporations, and for partnerships and limited liability companies (LLCs) classified as corporations. S corporations must use Schedule B (100S). Individuals must use form FTB 3885A, Depreciation and Amortization – Individuals. Fiduciaries and exempt trusts must use form FTB 3885F, Depreciation and Amortization – Fiduciaries. Partnerships must use form FTB 3885P, Depreciation and Amortization – Partnerships. LLCs classified as partnerships must use form FTB 3885L, Depreciation and Amortization – Limited Liability Companies.

Depreciation and amortization are deductions corporations claim for reasonable exhaustion, wear and tear, and normal obsolescence of property used in a trade or business or held for the production of income.

For purposes of this form, depreciation is used in connection with tangible property, while amortization is used for intangible assets.

Note: For amortizing the cost of certified pollution control facilities, use form FTB 3580, Application to Amortize Certified Pollution Control Facility.

Important differences between federal and California laws affect the calculation of depreciation and amortization. Some of the major differences are briefly described below:

- California law has not conformed to federal statutes allowing accelerated depreciation for property on Indian Reservations;
- California law allows a useful life of five years instead of ten years for grapevines planted as replacements for vines subject to Phylloxera or Pierce's Disease;

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- California bank and corporation tax law has not conformed to the federal special class life for gas station convenience stores and similar structures;
- California law allows additional first-year depreciation under R&TC Section 24356, rather than IRC Section 179;
- California has not conformed to federal statutes allowing depreciation under Modified Accelerated Cost Recovery System (MACRS) for corporations, except to the extent such depreciation is passed through from a partnership;
- California has adopted provisions of the federal Class Life Asset Depreciation Range System (ADR), which specifies a useful life for various types of property. However, California law does not allow the federal provision that enables a corporation to choose a depreciation period that varies from the specified asset guideline system.

B Depreciation Calculation Methods

For depreciation methods, refer to R&TC Sections 24349 through 24354.

R&TC Section 24349 describes the methods to use for calculating depreciation:

Straight-Line. The straight-line method divides the cost or other basis of property, less its estimated salvage value, into equal amounts over the estimated useful life of the property. An asset may not be depreciated below a reasonable salvage value.

Declining Balance. Under this method, depreciation is greatest in the first year and smaller in each succeeding year. The property must have a useful life of at least three years. Salvage value is not taken into account in determining the basis of the property, but the property may not be depreciated below a reasonable salvage value.

The amount of depreciation for each year is subtracted from the basis of the property and a uniform rate of up to 200% of the straight-line rate is applied to the resulting balance.

For example the annual depreciation allowances for property with an original basis of $100,000 are:

Year	Remaining basis	Declining-balance rate	Depreciation allowance
First	$100,000	20%	$20,000
Second . . .	80,000	20%	16,000
Third	64,000	20%	12,800
Fourth	51,200	20%	10,240

Sum-of-the-years-digits method. This method may be used whenever the declining balance method is allowed. The depreciation deduction is figured by subtracting the salvage value from the cost of the property and multiplying the result by a fraction. The numerator of the fraction is the number of years remaining in the useful life of the property. Therefore, the numerator changes each year as the life of the property decreases. The denominator of the fraction is the sum of the digits representing the years of useful life. The denominator remains constant every year.

Other consistent method. Other depreciation methods may be used as long as the total accumulated depreciation at the end of any income year during the first 2/3 of the useful life of the property is not more than the amount that would have resulted from using the declining balance method.

C Period of Depreciation

Use the following information as a guide to determine reasonable periods of useful life for purposes of calculating depreciation. Actual facts and circumstances will determine useful life. Note, however, that the figures listed below represent the normal periods of useful life for the types of property listed as shown in IRS Rev. Proc. 83-35.

- Office furniture, fixtures, machines and equipment . . . . 10 yrs.

  This category includes furniture and fixtures (that are not structural components of a building) and machines and equipment used in the preparation of papers or data.

  Examples include: desks; files; safes; typewriters; accounting, calculating and data processing machines; communications equipment; and duplicating and copying equipment.
- Computers and peripheral equipment (printers etc.) . . . . 6 yrs.
- Transportation equipment, automobiles (including taxis) . . . . 3 yrs.
  General-purpose trucks:
  Light (unloaded weight less than 13,000 lbs.) . . . . 4 yrs.
  Heavy (unloaded weight 13,000 lbs. or more) . . . . 6 yrs.
- Buildings

  This category includes the structural shell of a building and all of its integral parts that service normal heating, plumbing, air conditioning, fire prevention and power requirements and equipment such as elevators and escalators.

  Type of building:
  Apartments . . . . 40 yrs.
  Dwellings (including rental residences) . . . . 45 yrs.
  Office buildings . . . . 45 yrs.
  Warehouses . . . . 60 yrs.

D Depreciation Method to Use

Corporations may use the straight-line method for any depreciable property. Before using other methods, consider the kind of property, its useful life, whether it is new or used and the date it was acquired. Use the following chart as a general guide to determine which method to use.

Property description	Maximum depreciation method
Real estate acquired 12/31/70 or earlier	
• New (useful life 3 yrs. or more)	200% Declining balance
• Used (useful life 3 yrs. or more) . . .	150% Declining balance
Real estate acquired 1/1/71 or later	
• Residential Rental:	
New	200% Declining balance
Used (useful life 20 yrs. or more) . . .	125% Declining balance
Used (useful life less than 20 yrs.) . .	Straight-line
• Commercial and industrial:	
New (useful life 3 yrs. or more)	150% Declining balance*
Used	Straight-line
Personal property	
• New (useful life 3 yrs. or more)	200% Declining balance*
• Used (useful life 3 yrs. or more) . . .	150% Declining balance

* Other depreciation methods may be used as long as the total accumulated depreciation at the end of any income year during the first 2/3 of the useful life of the property is not more than the amount that would have resulted from using the declining balance method.

The Guideline Class Life System of depreciation may be used for certain classes of assets placed in service before 1971.

The Class Life ADR System of depreciation may be used for designated classes of assets placed in service after 1970.

E Amortization

California conformed to the 1993 federal Revenue Reconciliation Act (Public Law 103-66) for the IRC Section 197 amortization of intangibles for income years beginning on or after January 1, 1994. Generally, assets that meet the definition under IRC Section 197 are amortized on a straight-line basis over 15 years. There may be differences in the federal and California amounts for intangible assets acquired in income years beginning prior to January 1, 1994. See R&TC Section 24355.5 for more information.

Amortization of the following assets is governed by California law:

Bond premiums	R&TC 24360 – 24363
Research expenditures	R&TC 24365
Reforestation expenses	R&TC 24372.5
Leased property improvements	R&TC 24373
Organizational expenditures	R&TC 24407 – 24409
Start-up expenses	R&TC 24414

Other intangible assets may be amortized if it is proved with reasonable accuracy that the asset has an ascertainable value that diminishes over time and has a limited useful life.

Specific Line Instructions

Line 1

Corporations may enter each asset separately or group assets into depreciation accounts. Figure the depreciation separately for each asset or group of assets. The basis for depreciation is the cost or other basis reduced by a reasonable salvage value (except when using the declining balance method), additional first-year depreciation (if it applies) and tax credits claimed on depreciable property (where specified). This may cause the California basis to be different from the federal basis.

If the Guideline Class Life System or Class Life ADR System is used, enter the amount, from a schedule showing the computation, on form FTB 3885, column (g), and identify as such.

Line 1, Column (h), Additional first-year depreciation

Corporations may deduct up to 20% of the cost of ''qualifying property'' in the year acquired, in addition to the regular depreciation deduction. The maximum additional first-year depreciation deduction is $2,000. Corporations must reduce the basis used for regular depreciation by the amount of additional first-year depreciation claimed.

''Qualifying property'' is tangible personal property used in business and having a useful life of at least six years. Land, buildings and structural components do not qualify. Property converted from personal use, acquired by gift, inheritance or from related parties also does not qualify.

See R&TC Section 24356 and the applicable regulations for more information.

Note: Property described in R&TC Sections 24356.4, 24356.5, 24356.7 and 24356.8 qualifies for an expanded expense election. For more information, get form FTB 3806, Los Angeles Revitalization Zone Deduction and Credit Summary; form FTB 3805Z, Enterprise Zone Deduction and Credit Summary; form FTB 3807, Local Agency Military Base Recovery Area Deduction and Credit Summary or form FTB 3809, Targeted Tax Area Deduction and Credit Summary.